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INDIAN LIFE INSURANCE INDUSTRY REPORT

Private sector demonstrates resilience in business growth despite taxation changes

NOVEMBER 2023

Agenda

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Executive Summary

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The industry NBP to grow to Rs. 4.06-4.14 trillion by FY2024 and Rs. 4.49-4.66 trillion by FY2025 from Rs. 3.71 trillion in FY2023.

The individual NBP for the private insurers is expected to grow in a range of 12.5-14.8% in FY2024 and 14.0-16.0% in FY2025 as compared to 4-year CAGR of 16.5% during FY2019-2023.

The New Business Premium (NBP) for the life insurance industry is expected to grow by 9-12% to Rs. 4.06-4.14 trillion in FY2024 from Rs. 3.71 trillion in FY2023. The NBP growth for private insurers remained resilient at 13.8% in H1 FY2024 and is likely to grow by 13-16% in FY2024 (20% in FY2023) with an individual NBP growth of 13-15% in FY2024 (22% in FY2023). The moderation in growth is driven by the headwinds faced due to the change in taxation, but despite this, the growth remains resilient. The NBP for LIC, however, declined in H1 FY2024 due to the contraction in the group business, even as the retail business growth remained muted. In the absence of revival in LIC's group business, the NBP for LIC may witness a degrowth in FY2024 and the NBP growth for the industry may also be lower than our above estimates. The value of new business (VNB) growth for the industry is likely to be lower in FY2024 as compared to FY2023. The VNB will be driven by the growth in NBP, as the share of high margin (guaranteed non-par individual) businesses is likely to decline.

The NBP witnessed a sharp year-on-year (YoY) growth of 17.9% in FY2023 and stood at Rs. 3.7 trillion. The individual NBP grew substantially by 15.4% YoY in FY2023 (4-year CAGR of 10.3%) partly attributed to the significant increase in the guaranteed non-par individual segment, given the Budget announcement of taxation on returns from life policies with a premium of more than Rs. 5 lakh per annum applicable, post March 2023. ICRA expects the individual NBP to grow by 8.5-10.0% in FY2024, driven by the private insurers. Group NBP is expected to increase by 10.1-12.6% in FY2024 (19.6% in FY2023) provided there is revival in LIC's group business. The market share of the private insurers is expected to further increase to 40% of NBP by FY2025 (39% in FY2024P, 37% in FY2023 and 34% in FY2019)

Profitability for the large private insurers has improved during last few years driven by change in product mix and strong growth in the Annualised Premium Equivalent (APE). Accounting profitability is likely to remain range bound in FY2024 (return on equity (RoE) of ~10-11%) as the internal accruals are likely to be consumed for growth. LIC's NBP growth and improvement in profitability is contingent on the company's ability to diversify its product mix and distribution network. The solvency for private insurers remains comfortable in relation to the regulatory requirement of 1.50x. LIC's capital consumption would depend on its ability to grow its individual business. In addition, insurers have the headroom available to raise sub-debt, that could support the solvency.

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Market share of private insurers expected to further increase both within individual and group businesses.

The VNB to be driven by the growth in the APE; improvement in VNB margin with change in product mix likely to remain limited.

Private insurers remain well capitalised to meet the growth in the medium term.

Private Insurers to continue to grow strongly

- Industry individual NBP likely to taper down to 8-10% in FY2024 and 10-11% in FY2025; however, private insurers' individual NBP growth estimated to be higher at 13-15% in FY2024 and 14-16% in FY2025.
- Group NBP growth expected to be 10-13% in FY2024 and 11-13% in FY2025; contingent on revival in LIC group business.
- Gross Premium Written (GPW) to increase to Rs. 8.56-8.64 trillion by FY2024 (9-10% YoY) and Rs. 9.33-9.55 trillion by FY2025 (9-10% YoY) vis a vis ~Rs. 7.86 trillion in FY2023E.
- Private insurers continue to gain market share with ~40% share in NBP in FY2025.

Growth in APE to drive the growth in VNB and EV for private insurers

- Increase in VNB for private insurers in the past two years supported by both the strong growth in the APE and increase in the VNB margins driven by the change in product mix to higher margin non-par individual savings.
- Post the change in tax regulations, growth in non-par individual segment is likely to be impacted.
- Improvement in the VNB and the EV largely to be dependent on the growth in the APE segment.

Private insurers remain well capitalised

- Solvency of private insurers remains comfortable; increase in limit for raising sub debt likely to support solvency in case of requirement.
- LIC's core solvency remained comfortable; consumption of capital is dependent on the ability to diversify the product mix and distribution channel.

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Thank You!